VS Industry (VSI MK)

1QFY26: Within Expectations; Recovery Is On Track

BUY (Maintained)

Share Price	RM0.46
Target Price	RM0.70
Upside	+52.2%

Highlights

- We expect the earnings recovery to continue, driven by narrowing losses from previously unprofitable operations and sustained healthy utilisation rates across plants.
- Valuation dislocation offers deep value. VS is trading at an undemanding 14.3x FY26F PE (-0.5SD below its seven-year mean) and 0.81x FY26F P/B (-2SD), below even the MCO trough band of 0.83-0.88x.
- We view this as an attractive risk-reward entry point as fundamentals stabilise. Maintain BUY. Target price: RM0.70.

1QFY26 Results

Year to 31 Jul (RMm)	1QFY26	qoq % chg	yoy % chg	1QFY26	yoy % chg
Sales	1,078.6	25.6	(2.9)	1,078.6	(2.9)
Gross Profit	83.4	60,975.9	(1.8)	83.4	(1.8)
EBIT	50.6	297.0	3.9	50.6	3.9
PBT	48.8	259.5	11.7	48.8	11.7
Net Profit	30.6	192.7	0.1	30.6	0.1
Core net profit	24.5	233.0	(19.8)	24.5	(19.8)

Source: VS, UOB Kay Hian

Analysis

- **Within expectations.** VS Industry (VS) reported 1QFY26 core profit of RM24.5m (4QFY25: -RM18.4m; -20% yoy), accounting for 19% of our and consensus full-year numbers. Core earnings were adjusted for a reversal of impairment loss of RM6.1m on trade receivables following recovery from a discontinued customer.
- If not for the losses from Philippines operations (RM9.1m), HT Press (RM2.4m) and forex losses (RM3.5m), underlying performance would have been meaningfully stronger. Nevertheless, results are deemed within expectations as we anticipate a progressive narrowing of losses at both HT Press and the Philippines, with improvement expected from Dec 25 onwards. Meanwhile, contribution from new customer following the merger consolidation would drive additional revenue growth in 4QFY26.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4248	3788	4222	5029	5439
EBITDA	413	223	320	419	452
Operating profit	287	96	190	289	318
Net profit (rep./act.)	246	37	127	200	222
Net profit (adj.)	210	51	127	200	222
EPS	6.3	0.9	3.2	5.1	5.6
PE	8.6	35.3	14.3	9.0	8.1
P/B	0.79	0.84	0.81	0.76	0.71
EV/EBITDA	4.7	7.8	5.9	4.7	4.3
Dividend yield	4.0	1.7	2.1	3.3	3.7
Net margin	5.8	1.0	3.0	4.0	4.1
Net debt/(cash) to equity	-5.8	-6.1	-5.1	-5.1	-5.1
Interest cover	22.5	11.4	13.6	17.8	19.2
ROE	11.1	1.7	5.8	8.8	9.5
Consensus net profit	n.a.	n.a.	132	183	234
UOBKH/Consensus (x)	n.a.	n.a.	0.96	1.09	0.95

Source: VS, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Information Technology
Bloomberg ticker	VSI MK
Shares issued (m)	3,854.5
Market cap (RMm)	1,773.1
Market cap (US$m)	431.0
3-mth avg daily t'over (US$m)	6.2

Price Performance (%)

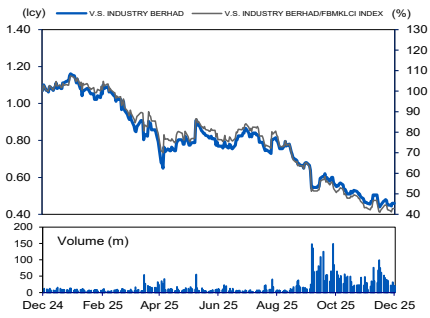
52-week high/low RM1.18/RM0.42

1mth	3mth	6mth	1yr	YTD
(5.2)	(31.9)	(40.6)	(56.3)	(59.0)

Major Shareholders %

Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Employees Provident Fund	6.3

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Revenue rebounded 26% qoq,** driven by the recognition of deferred orders from its key customers that were previously pushed back due to operational disruptions following the Liberation Day break in 4QFY25. As a result, the company recorded a strong turnaround in profitability with core net profit of RM24.5m (4QFY25 core net loss of RM18.4m), underscoring the pent-up demand from customers once operations normalised, as well as the company's ability to quickly ramp up production to fulfil backlogged orders.
- **Strategic measures enhance resilience.** We understand that management has reached a verbal agreement with a key customer on tariff cost-sharing. While this may dilute margins, it should be offset by stronger sales volumes and deeper customer engagement. This collaborative approach underlines VS' ability to safeguard revenues despite policy risks. Note that Malaysia's relative tariff advantage (19% vs China's 54%) also reinforces its position in global supply chains. Discussions with Customer X further reaffirm VS' long-term commitment across both Malaysian and Philippine operations.
- **New foray – Potential rerating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible (double its capacity in JB and they put VS as strategic partner). PCB assembly has already commenced for this client, but we exclude contributions from forecasts for now. As a sensitivity test, securing a RM300m contract at 3% net margin could boost FY26 earnings by about 7%.

Valuation/Recommendation

- Maintain BUY with an unchanged target price of RM0.70, based on 16x 2026F PE (-0.5SD to the seven-year mean).

Earnings Revision/Risk

- None.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

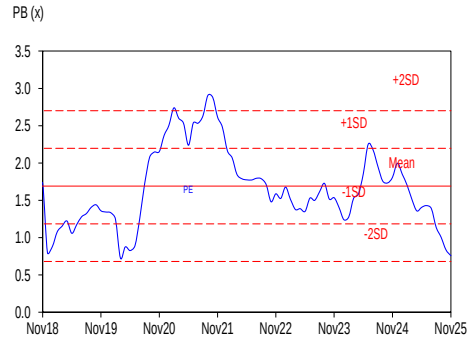
(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	4,222	5,029
Key customer	2,007	1,988	2,675	3,083
Customer Z	400	352	250	275
China	30	30	40	72
Indonesia	350	333	349	349
New key customers	1070	400	500	800
Others	391	686	409	450
Core net margin (%)	4.9%	1.4%	3.0%	4.0%

Source: UOB Kay Hian

Seven-Year Forward PE Band

Source: UOB Kay Hian

Seven-Year Forward P/B Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3788	4222	5029	5439
EBITDA	223	320	419	452
Deprec. & amort.	127	130	130	133
EBIT	96	190	289	318
Associate contributions	-1	3	3	3
Net interest income/(expense)	-20	-23	-23	-23
Pre-tax profit	75	169	268	297
Tax	-42	-44	-71	-78
Minorities	4	2	3	3
Net profit	37	127	200	222
Net profit (adj.)	51	127	200	222

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	944	964	984	1,001
Other LT assets	262	264	267	269
Cash/ST investment	859	706	622	656
Other current assets	1,661	1,997	2,338	2,513
Total assets	3,726	3,931	4,211	4,440
ST debt	454	454	454	454
Other current liabilities	702	820	963	1,039
LT debt	333	333	333	333
Other LT liabilities	85	85	85	85
Shareholders' equity	2,153	2,242	2,383	2,539
Minority interest	(2)	(4)	(7)	(10)
Total liabilities & equity	3,726	3,931	4,211	4,440

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	138.2	229.5	353.5
Pre-tax profit	75	169	268	297
Tax	(64)	(44)	(71)	(78)
Deprec. & amort.	127	130	130	133
Associates	337	(137)	(119)	(20)
Working capital changes	16	16	16	16
Other operating cashflows	41	6	6	6
Investing	(139)	(200)	(200)	(200)
Capex (growth)	(188)	(150)	(150)	(150)
Investments	47	0	0	0
Proceeds from sale of assets	2	0	0	0
Others	0	(50)	(50)	(50)
Financing	(257)	(91)	(113)	(119)
Dividend payments	(77)	(38)	(60)	(66)
Issue of shares	19	20	1	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(160)	(35)	(15)	(15)
Others/interest paid	(39)	(39)	(39)	(39)
Net cash inflow (outflow)	135	(153)	(83)	34
Beginning cash & cash equivalent	755	859	706	622
Changes due to forex impact	(31)	0	0	0
Ending cash & cash equivalent	859	706	622	656

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	7.6	8.3	8.3
Pre-tax margin	2.0	4.0	5.3	5.5
Net margin	1.0	3.0	4.0	4.1
ROA	0.9	3.3	5.0	5.4
ROE	1.7	5.8	8.8	9.5
Growth				
Turnover	(14.1)	16.0	45.9	61.0
EBITDA	(59.9)	61.1	123.2	143.9
Pre-tax profit	(93.7)	176.0	360.0	414.9
Net profit	(110.6)	343.3	623.4	706.8
Net profit (adj.)	(75.5)	147.0	58.0	10.9
EPS	(98.2)	205.8	406.1	465.8
Leverage				
Debt to total capital	36.6	35.2	33.1	31.1
Debt to equity	36.6	35.1	33.0	31.0
Net debt/(cash) to equity	n.a	3.6	6.9	5.1
Interest cover	11.4	13.6	17.8	19.2

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